



Taxation of Woodlands

About Johnston Carmichael

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Taxation of Woodlands

Within this guide, we have set out a general overview of the UK taxation treatment of Woodlands. As an asset class, Woodlands does have various UK tax advantages and we have set these out in this paper.

Inheritance Tax

Inheritance Tax is a UK tax that applies on death and certain lifetime transfers. The tax rate that applies on death is 40% unless certain reliefs and exemptions are available, such as Agricultural Property Relief and Business Property Relief.

Agricultural Property Relief (APR)

100% APR is available where woodlands are occupied along with agricultural land and the occupation of the woodlands is "ancillary" to it, e.g. shelter belt.

Woodlands which are not occupied for agricultural purposes, such as woodland used for the production of commercial timber, will not qualify for APR. However, they may be eligible for Woodlands Relief or Business Property Relief.

Business Property Relief (BPR)

Commercial woodland may attract 100% BPR from Inheritance Tax (IHT) provided you have owned the woodlands for two years. If death occurs within two years of ownership, IHT will be payable at 40% on the value of the woodlands in excess of your Nil Rate Band (currently £325,000), with any IHT due potentially payable by instalments.

Where you operate the woodlands via a company or partnership, it is important to consider who owns the land, because this can affect the rate of relief which applies.

What are Commercial Woodlands?

Woodlands are treated as commercial if they are managed on a commercial basis with a view to the realisation of profits. Evidence will need to be retained to substantiate such a claim, for example, accounts and records should be kept showing historic details of any profits and losses made.

While HMRC generally accept that commercial woodland will qualify for relief even if no felling has taken place, it is sensible to maintain evidence of the commercial operation e.g. business plans.

Woodlands Relief

In the event that APR and BPR are not available, on death, the beneficiaries of your woodlands can ask that the value of the timber (but not the land) be excluded from an individual's estate, provided that the individual has owned the woodlands for five years. When the timber is subsequently sold (or otherwise disposed of), IHT will be due on the proceeds received on the sale of the timber less allowable expenses (including the costs of replanting after disposal).

Heritage Relief

In addition, certain woodlands may qualify for Heritage Relief and may be exempt from IHT. This relief is available for assets of a national heritage quality e.g. land of outstanding scenic, historic or scientific interest.

Capital Gains Tax (CGT)

For commercial woodlands, there is no capital gains tax (CGT) liability arising from the sale of any standing or felled trees. However, any gains arising from the sale of the land (i.e. the solum or prairie value) on which the trees are situated on is liable to CGT.

It is important that separate valuations for the value of the timber and land are obtained on any acquisition or disposal of woodlands, otherwise an apportionment will be made on a just and reasonable basis between the value of the land and the timber/trees.

For non-commercial woodlands, CGT is payable on sale of the timber. However, the chattels exemption should apply to the sale of felled timber provided the proceeds arising from sale of each felled tree do not exceed £6,000.

Gift Relief/Holdover relief on the land (solum or prairie value)

Relief would be available on the gains arising from the gift of commercial woodlands. The gain arising on the gift of the commercial woodlands would be deferred until the recipient of the gift disposes of the woodlands at a later date. The claim for gift relief will need to be claimed by completing Form HS295 by both the donor and donee within four years from the end of the tax year in which the gift was made.

Please note that relief may be restricted where the land has not been used for a qualifying purpose throughout your period of ownership.

Holdover Relief is not generally available on a gift of land to a person who is not resident in the UK. Relief may also be clawed back where relief if the person who received the gift ceases to be non-UK resident within 6 years of the end of the tax year in which the gift was made. Holdover Relief may be available on transfers to non-residents where the gift is an interest in UK land. The relief works differently where woodlands are gifted to a non-UK resident and the calculation is more complex. We recommend that you speak to your UK tax advisor to confirm the position.

Business Asset Disposal Relief (BADR)

BADR is a Capital Gains Tax relief which can reduce the Capital Gains Tax rate to 10% on the sale of qualifying assets.

For Income Tax purposes, the commercial occupation of woodlands is not a trade. Therefore, commercial woodlands is generally considered not to be a qualifying business asset for the purposes of BADR.

Roll over relief

For commercially run woodlands, gains arising on the sale of the land may be deferred by rolling over the gains against the cost of replacement business assets (such as further woodlands, but not standing timber) within the period one year before or three years after the sale.

Income Tax

Income Tax Exemption

Income received from the sale of timber or from the occupation of commercial woodlands in the UK (or land being prepared for forestry) is exempt from Income Tax. Therefore:

- Income tax relief is not available on any expenditure incurred on the woodlands, for example on the preparatory work on the land for forestry purposes or clearance of the woodlands.
- Capital allowances cannot be claimed on capital expenditure incurred on plant and machinery used for the commercial woodlands. No tax relief is available for any losses suffered.

However, any profits from the occupation of commercial woodland is exempt from Income Tax

Taxation of Grants

Depending on the nature of the grant received, income received from grants for woodlands are usually exempt from Income Tax. However, income received for the compensation of loss of revenue for the landowner, for example loss of farming or rental profits are taxable (e.g. the Farm Woodland Premium Scheme). You should speak to your tax advisor if in doubt.

Other points

The exemption from income tax on woodlands does not include income received from the sale of:

- Christmas trees; and
- Short rotation coppice cultivation, i.e. trees which are harvested at intervals of less than ten years, (for example willow or poplar trees).

In addition, where an owner of woodlands lets their woodlands and receives rent from them, this income is taxable. Income derived from the use of the woodlands may be subject to Income Tax, for example:

- Income derived from picnic and camp sites in woodlands, or
- Sporting rights in the woodlands

Corporation Tax

There is no Corporation Tax charge on profits arising from the commercial occupation of woodlands, whether it be from the sale of timber or from certain Woodlands Grants. No relief is available in respect of losses incurred on commercial woodlands.

VAT

Woodland owners who are currently registered for VAT, must charge VAT on the sale of timber from the woodlands. The current VAT registration limit is £85,000 per annum.

It is possible to voluntarily register for VAT before you start making taxable supplies (i.e. the felling of trees), the intention to make taxable supplies being sufficient. The supply or grant of any right to fell or remove timber is subject to VAT at 20%.

Once VAT registered, you are able to recover input VAT on goods and services incurred in connection with the Woodlands operations.

Land & Buildings Transaction Tax (LBTT)

LBTT is payable on all commercial property purchases including the purchase of forestry. Below are the rates and thresholds at which LBTT applies:

Band: market price (£)	Tax rate (%)
0 – 150,000	0
150,001 – 250,000	1
Over 250,001	5

Where woodland is acquired along with residential property, you will need to consider whether the purchase is a residential transaction or a mixed transaction subject to the non-residential rates.

Stamp Duty Land Tax (SDLT)

SDLT is payable in England and Northern Ireland, on commercial property purchases including the purchase of forestry. Below are the rates and thresholds at which SDLT applies:

Band: market price (£)	Tax rate (%)
0 – 150,000	0
150,001 – 250,000	2
Over 250,001	5

Land Transactions Tax (LTT)

Land Transaction Tax replaced SDLT in Wales in 2018 and applies to the purchase of woodlands. Below are the rates and thresholds at which LTT applies:

Band: market price (£)	Tax rate (%)
0 – 225,000	0
225,001 – 250,000	1
250,001 – 1,000,000	5
Over 1,000,001	6

Need further help?

Speak to your local accountant or tax adviser or visit HMRC's website (www.hmrc.gov.uk) for further guidance and assistance.

Your Johnston Carmichael contacts



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